

**LEGAL AID ONTARIO
ANNUAL REPORT
2009**



LEGAL AID ONTARIO
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Letter to the Minister

July 2009

The Honourable Chris Bentley
Attorney General of Ontario
720 Bay Street
Toronto, ON M5G 2K1

Dear Minister,

Please accept, in accordance with Section 72 of the *Legal Aid Services Act, 1998*, the Annual Report for Legal Aid Ontario for the year ended March 31, 2009.

On behalf of the people of Ontario, we thank you, your ministry and the Government of Ontario for your ongoing support of Legal Aid Ontario and its mission to provide equitable access to justice for low-income Ontarians.

Sincerely,



John D. McCamus, Chair

Message from the Chair

The past year has been particularly challenging for Legal Aid Ontario, as our organization has had to brace against the headwinds of the global economic recession, a reality that has had the effect of placing ever-increasing numbers of Ontarians in need of legal assistance and without the financial means to obtain it. In turn, many of these people look to Legal Aid for assistance in dealing, for example, with aspects of poverty law, family law and criminal law that touch upon their lives and those of their family members. However, the difficult task of serving the requirements of these individuals is magnified by the fact that a significant portion of LAO's operating budget is derived from sources other than direct government funding. These sources include direct client contributions and grants from the Law Foundation of Ontario, which due to the prevailing economic conditions, reduced its funding to LAO in 2008-09 by more than 50 per cent.

Despite these hurdles, which were not entirely unforeseen, the staff and management of LAO successfully managed to exceed its revenue target for the 2008-09 fiscal year by \$1.5 million and record a deficit more than \$5 million less than was projected coming into the year. With prudent fiscal measures already being enacted through management's two-year-old Value Agenda strategy, LAO was able to pare its operational budget by nearly \$3.7 million for the past fiscal year, as well as reduce its budgeted administrative expenditures by 2 percent during this period.

Credit for these crucial achievements in budgetary control deservedly goes to LAO president and CEO Robert Ward and his senior management team, along with their staff in the Provincial office and the many dedicated staff, lawyers, students and volunteers in Legal Aid offices, clinics and courthouses across the province, who have ably discharged their statutory duty to provide legal service of the highest possible quality to low-income Ontarians, while embracing the need to deliver appropriate value to Ontario taxpayers.

Recognition is also due the LAO Board of Directors, a group of individuals who devote much time, effort, and intellectual capital to help Legal Aid do its part to maintain a fair and equitable justice system in Ontario. I thank each and every board member for their dedication and commitment to achieving this objective. Finally, I extend sincerest thanks and appreciation to the Attorney General of Ontario, Chris Bentley, for the leadership and support his Ministry has provided LAO in its pursuit of its mandate, particularly through the application of its *Justice on Target strategy*.

Sincerely,



John D. McCamus, Chair

Message from the President

Two years ago, Legal Aid Ontario introduced a new strategic initiative to improve productivity and/or reduce costs across all areas of its service delivery infrastructure. The Value Agenda, as we called it, set the goal of achieving a 1% annual increase in productivity or savings over a period of five years.

Inspired by the desire to improve services to Legal Aid clients while also delivering enhanced value to taxpayers, the Value Agenda strategy has proven to be a remarkably salient tool in our organization's efforts to weather the global economic downturn.

Nothing illustrates this more than the fact that LAO's total operational expenses for the past year (in which revenues were significantly curtailed) were under budget by \$3.8 million – precisely matching our 1% Value Agenda target. Further, administrative expenses were under budget for the year by \$969,000, or approximately 3.3 per cent, and salaries and benefits were under budget by approximately \$1 million.

These cost-savings, while still not enough to erase a total operating deficit of \$19.2 million, do help account for LAO's deficit reduction of more than \$5 million in 2008-09. Without the Value Agenda, LAO would most certainly have been facing a much greater budget shortfall.

While we have partially offset LAO's projected shortfall from our contingency reserves, we will be able to achieve the full extent of these expenditure reductions over the next three years. This is precisely the motivation for implementing LAO's modernization strategy, which will serve the dual purpose of addressing LAO's need to improve services and significantly improve LAO's cost structures.

Sincerely,



Robert W. Ward
President and CEO

Board of Directors



LAO Board Members 2008–2009

Left to right: Sujit Choudhry, Robert Ward (Ex-officio member), Paul Dray, James McNee, Ali Alibhai, James Yakimovich, John McCamus (Board Chair), John Liston, Timothy Murphy, Nancy Cooper.

About Legal Aid

What we do:

Legal Aid Ontario was established in 1998 under the *Legal Aid Services Act* as an independent but publicly funded and publicly accountable non-profit corporation to administer the province's legal aid program.

Legal Aid Ontario operates 51 offices in 48 communities across Ontario and funds 80 community legal clinics throughout the province, including 17 specialty clinics that provide assistance to clients in such areas of law as worker's compensation, housing and income security. LAO also funds Student Legal Aid Services Societies at Ontario's six university law schools, where student volunteers provide legal advice and representation to low income Ontarians who cannot afford a lawyer but do not qualify for legal aid.

LAO's certificate program provides the means for low-income residents of Ontario to retain a private lawyer to represent them in proceedings before criminal or family courts and administrative tribunals. We also provide duty counsel services—performed by staff and private-sector lawyers—for people who arrive in criminal, family or youth courts, or the Landlord and Tenant Board without a lawyer.

LAO provides the funding and other support to the certificate and duty counsel programs, while some 4,000 private lawyers contribute to legal aid by accepting reduced rates and limits on billable hours for the legal services they give to clients.

2008/09

Committees and Volunteers

Advisory Committees

LAO is required by provincial law to formally work with a range of advisory committees drawn from community representatives and LAO board members to provide advice on specific areas of the law, including criminal, family and clinic law. In addition to these required committees, LAO has formed others covering areas of law such as immigration and refugee, prison law, mental health, Aboriginal justice and French language services. The role of these committees is to provide advice and expertise to the LAO board of directors and to hold LAO accountable to the individuals and organizations who work most closely with the organization in the delivery of legal services to Ontario residents.

Area Committees

Approximately 700 people, including lawyers and community representatives, volunteer hundreds of hours of their time on these committees across the province. Area committees hear appeals from decisions of area directors who have refused or cancelled a legal aid certificate and decide whether to issue certificates in appeal cases.

Group Applications and Test Case Committee

This is an advisory committee responsible for reviewing group applications for legal aid, applications for representation at coroners' inquests and test cases involving

the Charter of Rights and Freedoms. The Group Applications and Test Case Committee fills an important role within LAO. Group cases, test cases and coroner's inquests often raise complex or new legal issues. As a result, expertise is needed to assess the strengths and weaknesses of the legal matter and its potential impact on low-income Ontarians.

LAO Exceptions Committee

The Exceptions Committee is a group of experienced criminal lawyers hired by LAO to provide budgetary recommendations on big criminal cases that are anticipated to cost more than \$75,000. The Exceptions Committee is an integral part of LAO's Big Case Management Program.

Staff Offices

LAO has administered a three year pilot project of three Criminal Law Offices in Barrie, Brampton, and Ottawa. These CLOs are staff offices with a mandate to supplement the certificate service delivered by the private bar, with clients who receive legal help at a CLO being required to contribute to all or some of their legal fees. In the three years since their inception, the CLOs provided valuable services to over 2,300 clients in their three communities, including the mentally ill, youths and aboriginals. By providing legal assistance to those who would otherwise likely have appeared in court unrepresented, the CLOs ensured a more fair and effective judicial process.

2008/09 In Focus

2008 was a challenging fiscal year for Legal Aid Ontario, as the organization was unable to fully escape the negative effects of the global economic downturn. However, as a budgetary shortfall had been anticipated at the outset of the fiscal year based on broad economic indicators, LAO's management was successful in achieving a smaller operational deficit than had been forecast. A continued commitment to achieving the annual cost-savings and service improvement goals established in management's Value Agenda strategy, introduced in 2007, played a significant role in allowing LAO to achieve this modest measure of success in reducing its deficit, which would be funded from LAO's accumulated surplus and contingency reserve fund.

To ensure the long-term viability of the organization and to cope with an uncertain revenue stream, LAO is looking to reduce current expenditure levels by over \$40 million over the next three years. LAO will also be investing in new technology and process changes in order to implement a much-needed modernization strategy.

Financial Highlights:

- For fiscal year 2008, LAO recorded a \$19.2-million deficit, \$5.1 million less than the approved budget deficit of \$24.3 million.
- At \$337 million, LAO revenues exceeded the 2008 revenue target by \$1.5 million.
- Client contributions increased \$3 million over the previous year, surpassing the budget projection by \$4.9 million, but were offset by a decline in Law Foundation revenues, which ended the year \$3.2 million under budget. LAO's Law Foundation revenues decreased from approximately \$56 million in 2007–08 to \$26 million in 2008–09, nearly \$30 million less than projected.
- Total operational expenses for the year were under budget by \$3.66 million, or 1%, meeting management's Value Agenda target.
- LAO's Big Case Management expenditures were \$2.5 million under budget—a savings offset by higher than anticipated costs for other certificate programs amounting to \$2.4 million.
- Restrained spending in the LAO clinic program, including the Clinic Information Management project, Duty Counsel program and Service Innovation projects, contributed to the overall reduced deficit outcome.
- Administrative expenses, including depreciation, were under budget for the year by \$675,000, or approximately 2.0%.
- Salaries and benefits were under budget by approximately \$1 million, due to newly implemented strategic human resources practices. Expenses such as education and travel were curtailed, particularly for corporate and duty counsel training initiatives. This effort produced an underexpenditure of \$849,000, compared to budget.

Strategic Business Highlights

- Implemented an Innovation Strategy to streamline, modernize and improve client services.
- The "LAO in the Courthouse" program is now in 17 priority sites identified by the Ministry of the Attorney General's Justice On Target (JOT) initiative.
- Simplified Online Application Portal (SOAP) was implemented in all 51 area offices and all 17 priority Justice on Target sites. The SOAP program was also expanded to allow for 'Criminal In Custody' applications.
- Implemented a 5% increase to tariffs paid to Legal Aid lawyers.
- Improved French language services.
- Introduced a multilingual, telephone based Client Service Centre (CSC) for client inquiries, general information about legal aid and referrals to other services.
- Developed an Aboriginal strategy, including the investment of \$500k to improve services.
- Redesigned the Big Case Management program to include clearer, more effective panel management standards, more qualified lawyers and more efficient administrative processes at reduced costs.
- Began developing an expanded, enhanced and integrated duty counsel program in both criminal and family law.
- Sought permission to join the Public Sector Pension Plan and also developed a Human Resources Strategy and Lawyer Workforce Strategy.
- Relocation of LAO head office, Toronto Area Office, Refugee and Family Law Offices improved client access and will save taxpayers \$900k per year.
- LAO relocation promoted the paperless project, significantly decreasing paper records and reducing office space requirements.
- Launched a three-year Performance Measurement project and created a new Internal Audit and Program Evaluation Unit to help identify successes and provide the means to make more informed decisions.

Report on Client Services

Legal Aid Certificates

LAO's certificate program engages the services of dedicated private lawyers who work on behalf of low-income individuals, and are paid by LAO based on certificate tariff rates. Legal aid certificates are issued by local area offices across the province to financially eligible clients who need specific legal services in the areas of family law, refugee law, criminal law, child welfare, and certain areas of civil law such as mental health.

When a client receives a legal aid certificate, he or she can take it to one of more than 4,000 private practice lawyers in Ontario who participate in the legal aid certificate program. When a lawyer accepts the legal aid certificate, it is their guarantee that they will be paid for any authorized legal services they provide to the client.

The total number of certificates issued in 2008/09 exceeded the previous year's total by 9,870, or approximately 9%. Total certificate expenditures, excluding Big Cases and other exceptional items, were over budget by \$1.3 million. This was primarily due to increased costs for criminal case certificates, which were up by more than 4,000, or approximately 6%, over the previous year.

2008–09 Number of Legal Aid Certificates Issued by Category

	Criminal	Family	Immigration & Refugee	Other Civil	Total
Actual	68,453	30,107	12,706	5,903	117,169
Target	67,258	27,700	11,060	5,807	111,825
Difference	(1,195)	(2,407)	(1,646)	(96)	5,344

Actual, Prior Years

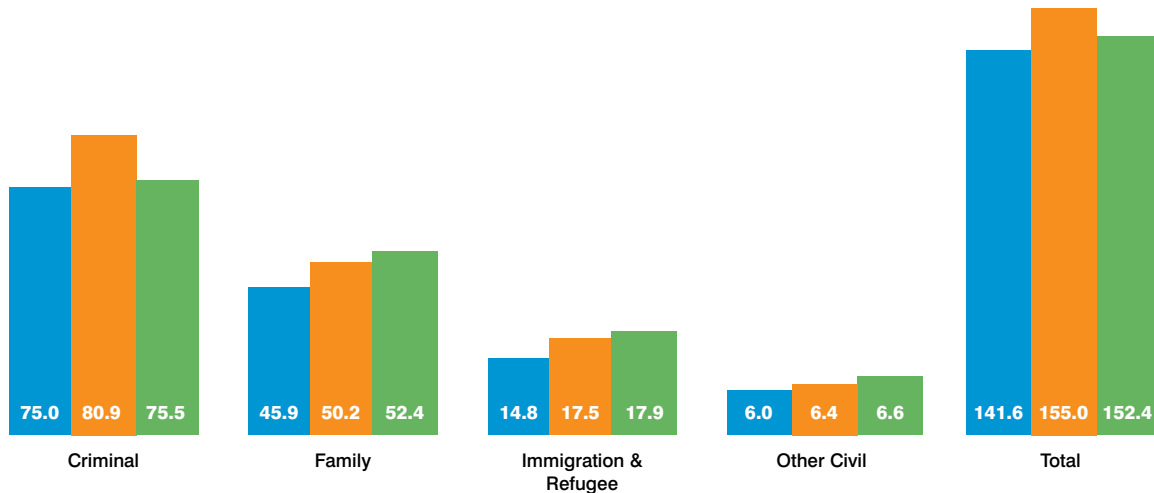
Aid Category	2005–06	2006–07	2007–08	2008–09
Criminal	65,510	65,784	64,335	68,453
Family	28,704	26,450	25,599	30,107
Immigration & Refugee	10,992	11,060	11,401	12,706
Other Civil	5,812	5,807	5,964	5,903
Total	111,018	109,101	107,299	117,169

The chart below is a comparison of 2008–09 and 2007–08 certificate costs. Certificate costs increased by \$13.4 million compared to the previous year. Approximately \$6 million of the overall increase can be attributed to the 5% tariff increase granted to legal aid lawyers last year. Criminal costs were \$5.9 million greater than the previous year, and family costs were higher by \$4.3 million, partially due to the increased number of certificates issued in 2008/09 as part of the increased funding received from the government last year. The cost of Immigration and Refugee certificates was higher than in the previous year but were still slightly under budget for 2008–09.

Certificate Cost Comparisons by Major Aid (Non BCM*)

* Big Case Management

(dollars in millions)



Actuals Fiscal Year	2007-08
Actuals Fiscal Year	2008-09
Budget Fiscal Year	2008-09

Overall, there was a 5% increase in certificate applications in 2008–09, with an increase in all categories, other than Civil. The increase was particularly notable in Family and Immigration/Refugee matters. Family applications have increased partially as a result of LAO's commitment to issue additional certificates in response to increased funding provided by the Province to LAO in 2007.

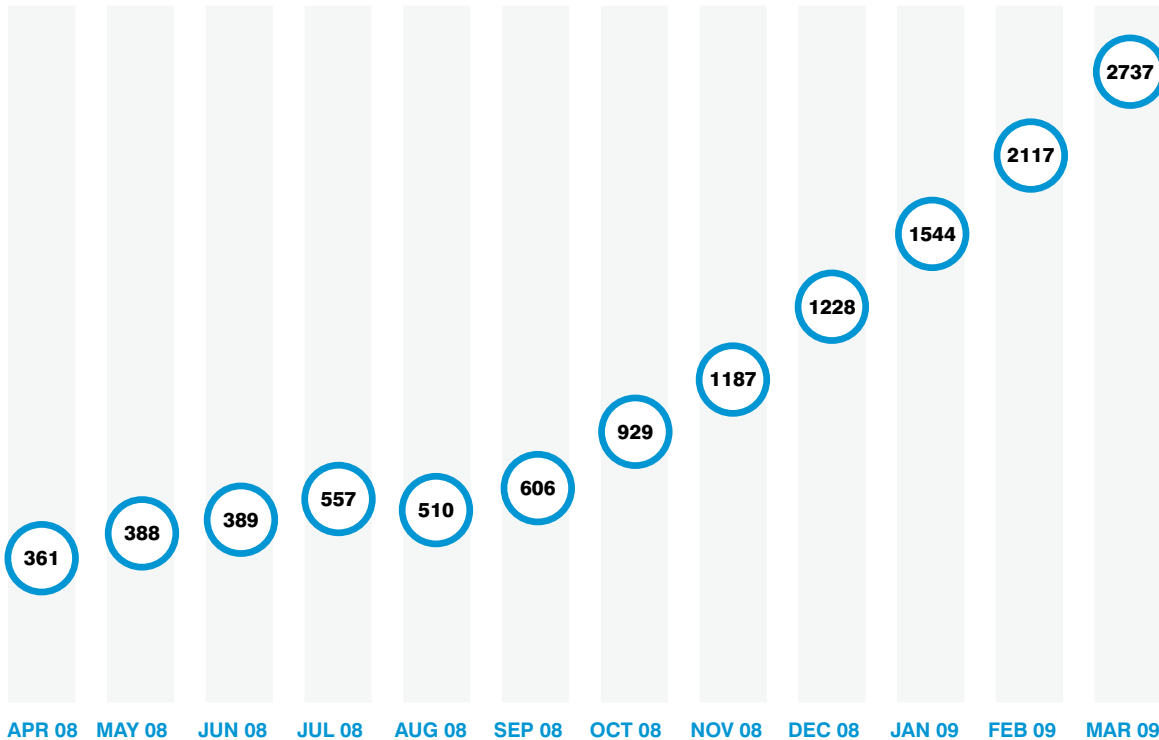
Number of Certificate Applications and Acceptance Rate

Fiscal Year	Applications Taken	Certificates Issued	Acceptance Rate Percent
2005–06	143,226	111,018	78%
2006–07	141,757	109,101	77%
2007–08	138,614	107,299	77%
2008–09	146,537	117,169	80%

Of note, legal aid certificate applications received through LAO's Simplified Online Application Portal (SOAP) increased dramatically in 2008, with a rapid increase seen in the volume of certificate applications as the year progressed. A total of 12,553 applications were processed for the year ended March 31, 2009, representing approximately 9% of all applications received during the fiscal year.

SOAP Applications Taken by Month Fiscal Year 2008–09

Total SOAP Applications: 12,553



The productivity index measures number of services provided per \$10,000 of cost. This is a standard measure that can be used across all programs. The effect of the 5% tariff increase has been excluded in all productivity calculations. Productivity improvements achieved in 2008–09 for the certificate program were higher than the 1% Value Agenda target.

Productivity Index Certificate Program

Number of Certificates Per \$10K



1% Value Agenda Target

Duty Counsel

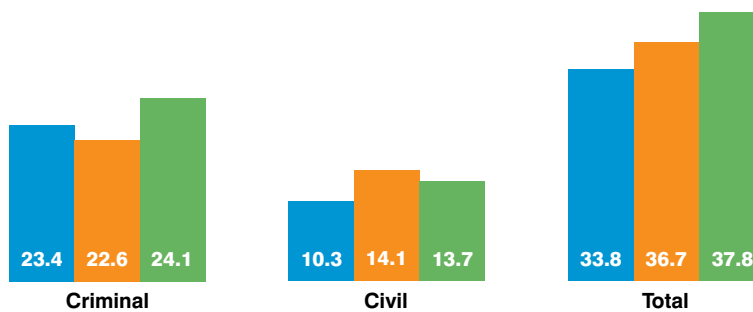
Duty counsel services are provided either by in-house staff or private practice lawyers who are paid on a per diem basis in every courthouse in Ontario, including more than 30 remote and fly-in locations.

Duty counsel lawyers work in courtrooms across the province, providing efficient, cost-effective assistance to people in need of legal support. Duty counsel provide front-line advice, information and representation to individuals who would otherwise be unrepresented and unassisted in the legal system.

In 2008–09, the total cost of the duty counsel program increased by \$2.9 million over the previous year. Duty counsel costs for civil matters increased by \$3.8 million, while the costs of criminal assists declined by approximately \$900,000. Approximately \$1.7 million of the total increase in program expenditures was attributable to tariff and salary adjustments.

Duty Counsel Program Cost Comparisons by Major Aid

(dollars in millions)



2007-08	Actual
2008-09	Actual
2008-09	Budget

The total number of persons assisted through the duty counsel program increased 2.5% in fiscal 2008–09 over 2007–08. Criminal assists increased year over year by 2.0%, while civil assists increased by 4.8% over the same period. The proportion of criminal and civil to total persons assisted was approximately 79% and 21%, respectively. This represents a slight 1% decrease in the proportion of criminal assists compared to fiscal 2007–08.

Number of Persons Assisted by Duty Counsel

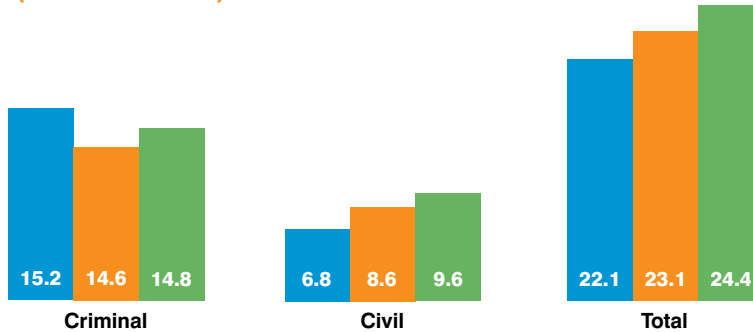
Aid Category	2006-07	2007-08	2008-09
Criminal	661,438	673,926	687,420
Civil	170,889	159,015	166,726
Total	832,327	832,941	854,146

Per diem duty counsel expenditures were under budget for 2008–09 but were approximately \$1 million higher than the previous year. This is partially due to tariff increases but has been modified by more work being done by staff duty counsel.

Expenditures for staff duty counsel were marginally over budget for the year. These expenditures increased by approximately \$1.8 million, or 16%, in comparison to the prior year. This variance was partially due to increases implemented during the year as part of the Lawyers' Workforce Strategy.

Per Diem Duty Counsel Cost Comparisons by Major Aid

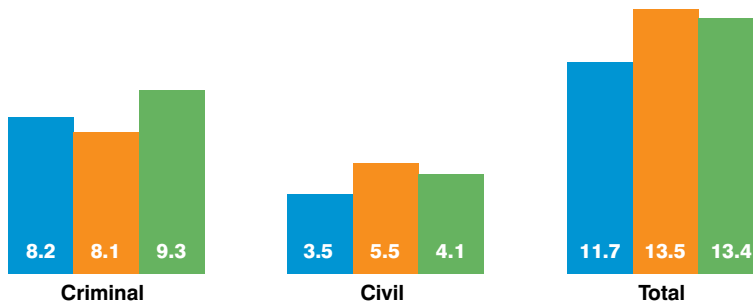
(dollars in millions)



2007-08 Actual
2008-09 Actual
2008-09 Budget

Staff Duty Counsel Cost Comparisons by Major Aid

(dollars in millions)

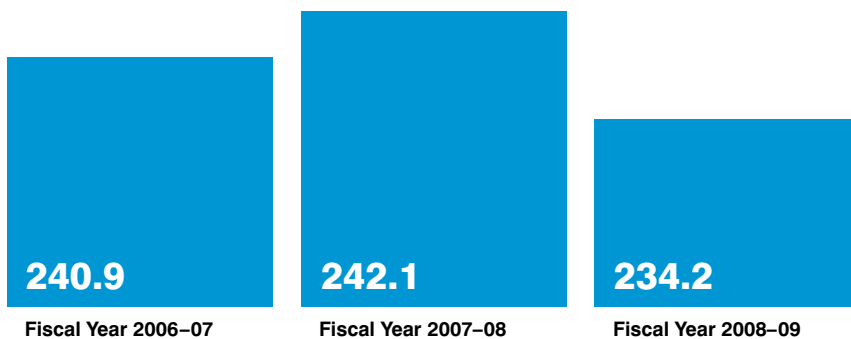


2007-08 Actual
2008-09 Actual
2008-09 Budget

Productivity improvements in the duty counsel program were close to the 1% Value Agenda target in 2007–08, but were lower for the fiscal year 2008–09. The productivity index performance for the duty counsel program in 2008–09 was 3.3% less than the previous year's rating.

Productivity Index Duty Counsel Program

Number of Certificates Per \$10K



1% Value Agenda Target

Community Legal Clinics

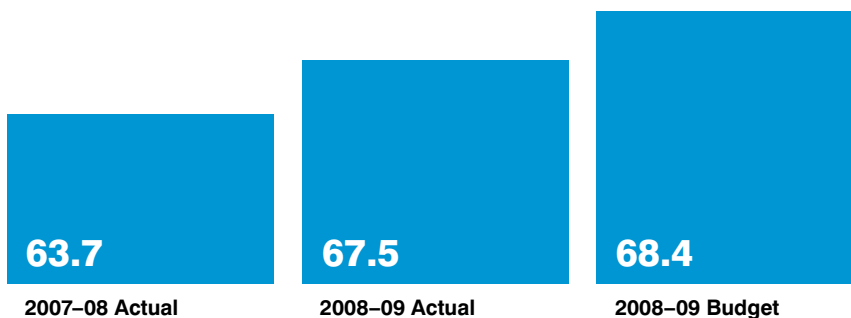
Legal Aid Ontario funds 80 community legal clinics throughout the province, including 17 specialty legal clinics, providing poverty law assistance services and public legal education to agencies and low-income communities, and engaging in law reform activities. Clinics are independent non-profit organizations.

General service clinics provide low-income Ontarians legal support in a number of areas of law, including the Ontario Disability Support Program (ODSP), worker's compensation, housing, worker's health and safety, and social benefits. Specialty legal clinics focus on specific groups of disadvantaged clients or particular areas of law that affect large numbers of low income people. Through test case litigation, law reform work and community development, legal clinics are often at the forefront of systemic change that benefits low-income Ontarians.

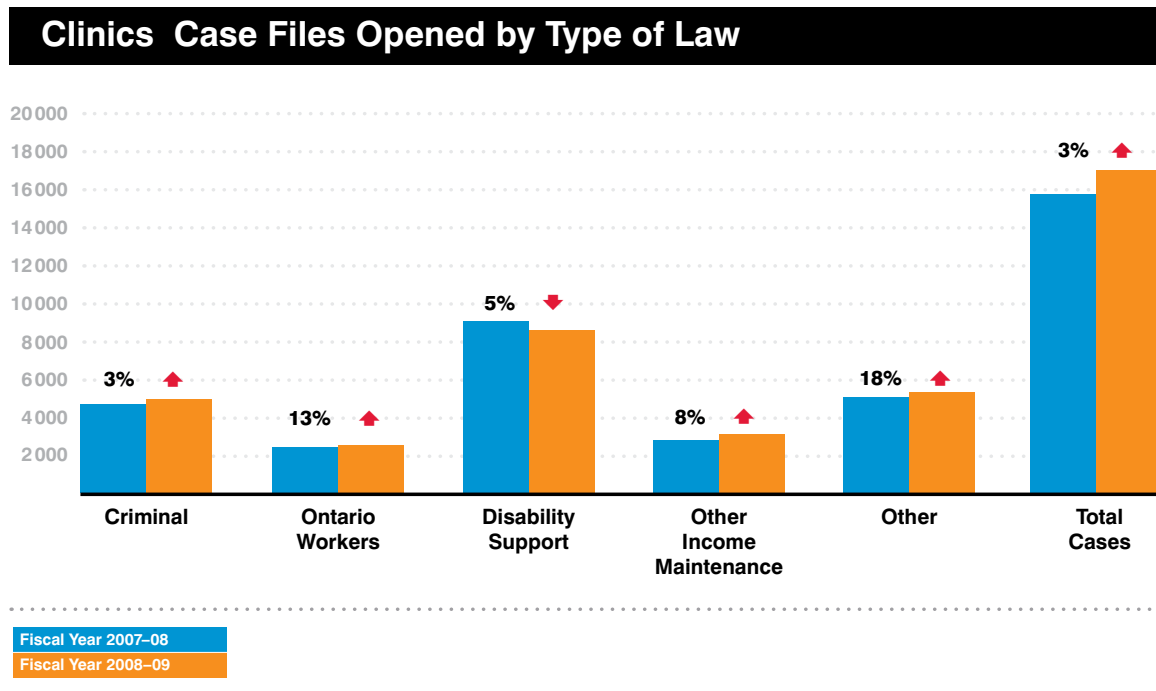
Clinic costs increased by 3.2% in 2008-09 over the previous year, but expenditures were 3.9% lower than was anticipated in the overall budget for the year. One of the main factors for this variance was reduced operational spending by the clinics during the year. Another factor contributing to the under expenditure relative to budget is trimmed spending on the Clinic Information Management Program, which will be carried forward as part of the 2009-10 budget.

Clinic Program Cost Comparisons

(dollars in millions)



Total new case files opened in 2008–09 increased by 576, or 3%, compared to 2007–08. This was primarily due to the increase in Other types of cases (18%) but was substantially offset by a decrease in the number of Disability Support cases (5%). All other services categories showed year over year increases.



On a regional basis, the cost per active file decreased on average from \$314 to \$311 for the clinics, or less than 1%, between 2007–08 and 2008–09. All of the clinics recorded varying reductions in the cost per case between the current and previous fiscal years. This was primarily due to the increased number of active files open in 2008–09. The overall cost reduction based on this increase in activity was \$17 per case.

Region	2006–07			2007–08			2008–09			
	Funding Received	Active Files	Cost/Active File	Funding Received	Active Files	Cost/Active File	Funding Received	Active Files	Cost/Active File	% Change Cost/Active
Specialty	\$ 10,010,374	\$ 22,566	\$ 444	\$ 11,422,714	\$ 24,508	\$ 466	\$ 11,916,864	\$ 26,008	\$ 458	-1.72%
Southwest	9,493,590	36,743	258	10,766,666	37,637	286	11,130,999	39,287	283	-1.05%
Northern	5,424,379	16,324	332	6,196,544	14,931	415	6,543,445	15,943	410	-1.20%
GTA	14,113,382	52,814	267	16,132,132	52,589	307	17,043,493	56,209	303	-1.30%
Central & East	9,251,599	46,370	200	10,707,344	46,003	233	10,993,282	47,696	230	-1.29%
Total	\$ 48,293,284	\$ 174,817	\$ 276	\$ 55,225,400	\$ 175,668	\$ 314	\$ 57,628,083	\$ 185,143	\$ 311	-0.96%

Student Legal Aid Services Societies

Student Legal Aid Services Societies (SLASS), funded by LAO and delivered by volunteer law students, operate out of Ontario's six university law schools to provide public legal education and to deliver legal advice and representation to low income Ontarians who cannot afford a lawyer but do not qualify for legal aid.

Among the issues they deal with are minor criminal matters, landlord and tenant disputes, immigration issues, and workers' rights and tribunals, including the Ontario Human Rights Commission.

Statutory Mandate

Legal Aid Ontario has a statutory mandate to promote access to justice throughout Ontario for low-income individuals by means of:

- Providing consistently high quality legal aid services in a cost-effective and efficient manner;
- Encouraging and facilitating flexibility and innovation in the provision of legal aid services;
- Identifying, assessing and recognizing the diverse legal needs of low-income individuals and of disadvantaged communities in Ontario; and
- Providing legal aid services to low-income individuals through a corporation that will operate independently from the Government of Ontario but within a framework of accountability to the Government of Ontario for the expenditure of public funds.

In fulfilling this mandate Legal Aid Ontario is committed to providing services which recognize the importance of diversity, access, equity, creativity and quality.

Our Vision

To ensure that healthy communities include responsive and meaningful legal aid services and improved access to justice.

Values

Integrity

We act with integrity and we assume that others do so.

Respect

We practice respect in all relationships.

Responsiveness

We are responsive to clients, stakeholders and staff. We treat people in an equitable way, recognizing their needs.

Excellence

We strive for excellence and continuous quality improvement. We aim to attract and retain the best employees.

Independence

We are an independent part of the justice system.

Accountability

We are accountable to the government, clients, stakeholders and staff.

Openness

We are open and consultative in decision-making.

Consistency

We are consistent in our processes and decision-making.

We create unity across the organization. We make decisions on the basis of facts and sound principles.

Legal Aid Ontario Financial Statements

For the year ended March 31, 2009

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Management's Responsibility for Financial Information



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Management's Statement of Responsibility

The Management of Legal Aid Ontario is responsible for the preparation, presentation and integrity of the accompanying financial statements, Management's Discussion and Analysis and all other information contained in this Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgements and best estimates necessary to prepare the financial statements in accordance with Canadian generally accepted accounting principles, with appropriate consideration to materiality. The significant accounting policies followed by Legal Aid Ontario are described in the financial statements.

Management has developed and maintains a system of internal control, business practices and financial reporting to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced on a timely basis. Internal auditors, who are employees of Legal Aid Ontario, review and evaluate internal controls on management's behalf.

The Board of Directors of Legal Aid Ontario ensures that management fulfils its responsibilities for financial information and internal control through an Audit and Finance Committee. This Committee meets regularly with management and the auditor to discuss internal controls, audit findings and the resulting opinion on the adequacy of internal controls, and the quality of financial reporting issues. The auditors have full access to the Audit and Finance Committee, with and without the presence of management, to discuss the results of their work.

The accompanying financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor General's examination and opinion.

Handwritten signature of Robert W. Ward in black ink.

Robert W. Ward
President and
Chief Executive Officer
May 29, 2009

Handwritten signature of Michelle Séguin in black ink.

Michelle Séguin
Vice President and
Chief Administrative Officer
May 29, 2009



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To Legal Aid Ontario
and to the Attorney General of Ontario

I have audited the balance sheet of Legal Aid Ontario as at March 31, 2009 and the statements of operations and changes in net accumulated surplus (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Legal Aid Ontario's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Legal Aid Ontario as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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www.auditor.on.ca

Toronto, Ontario
May 29, 2009

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Legal Aid Ontario Balance Sheet

March 31, 2009

(dollars in thousands)

2009

2008

ASSETS

Current

Cash and cash equivalents (Note 2)	\$	7,144	\$	8,918
Accounts receivable (Note 3)		21,563		23,207
Prepaid expenses		1,197		881
Short-term investments (Note 4)		30,637		41,252
Short-term investments: contingency reserve (Notes 4 and 9)		20,000		20,000
	\$	80,541	\$	94,258

Long-term client accounts receivable (Note 3)

20,024 19,368

Capital assets (Note 5)

10,920 8,890

\$ 111,485 \$ 122,516

LIABILITIES AND NET ASSETS

Current

Accounts payable and accrued liabilities (Note 6) \$ 86,022 \$ 77,830

Accrued pension benefit (Note 12)

1,257 1,064

Deferred capital contributions (Note 7)

485 747

\$ 87,764 \$ 79,641

Net Assets

Accumulated surplus (Note 1(c)) \$ (6,714) \$ 14,732

Invested in capital assets (Note 8) 10,435 8,143

Contingency reserve (Notes 4 and 9) 20,000 20,000

\$ 23,721 \$ 42,875

\$ 111,485 \$ 122,516

On behalf of the Board:



John D. McCamus, Chair

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario Statement of Operations

For the year ended March 31

2009

2008

(dollars in thousands)

REVENUE

Province of Ontario (Note 1(a))	\$ 285,811	\$ 283,888
The Law Foundation of Ontario	26,198	56,419
Client contributions	21,500	18,950
Judgments, costs, and settlements	296	282
Investment and other income	3,148	3,111

	\$ 336,953	\$ 362,650
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EXPENSES

Core Business

Certificate Program

Criminal—Big Cases	\$ 22,823	\$ 20,808
Criminal—Others	80,078	74,950

Sub-total	102,901	95,758
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Family	50,755	45,927
Immigration and refugee	17,701	14,801
Other civil	6,339	5,981
Settlement conferences	111	133

Sub-total	177,807	162,600
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Area office services	25,574	24,088
Family law offices	2,518	2,366
Criminal law offices	1,194	1,582
Refugee law office	1,010	871

	208,103	191,507
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Duty Counsel Program

Duty counsel fees and disbursements	37,331	34,599
Expanded duty counsel	713	606

	38,044	35,205
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Clinic Program and Special Services

Clinic law services (Note 10)	62,527	60,702
Nishnawbe-Aski allocation	1,791	1,610
Student Legal Aid Services Societies	3,156	3,013
Clinic information management project	64	-

	67,538	65,325
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Service Innovation Projects

Other	810	1,094
	810	1,094

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario Statement of Operations (continued)

For the year ended March 31	2009	2008
(dollars in thousands)		
EXPENSES (continued)		
Service Provider Support		
Research facility	2,124	2,091
	2,124	2,091
Administrative and Other Costs		
Provincial office	28,569	25,363
Amortization expense	3,711	3,149
Bad debts	7,208	9,094
	39,488	37,606
	\$ 356,107	\$ 332,828
Excess of revenue (deficit) over expenses for the year	\$ (19,154)	\$ 29,822

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario Statement of Changes in Net Accumulated Surplus (Deficit)

For the year ended March 31, 2009 with comparative figures for 2008
(dollars in thousands)

	Invested in capital assets	Contingency reserve	Accumulated surplus/ (deficit)	2009 Total	2008 Total
	(Note 8)	(Note 9)	(Note 1(c))		
Net Accumulated surplus, beginning of year	\$ 8,143	\$ 20,000	\$ 14,732	\$ 42,875	\$ 19,559
Excess (deficiency) of revenue over expenses	(3,515)	-	(15,639)	(19,154)	29,822
Investment in capital assets	5,807	-	(5,807)	-	-
Change in accounting policy – valuation of client accounts receivable	-	-	-	-	(6,506)
Net Accumulated surplus/ (deficit), end of year	\$ 10,435	\$ 20,000	\$ (6,714)	\$ 23,721	\$ 42,875

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario

Statement of Cash Flows

For the year ended March 31	2009	2008
(dollars in thousands)		
Cash provided by (used in)		
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	\$ (19,154)	\$ 29,822
Valuation adjustment on client accounts receivable	-	(6,506)
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Amortization	3,711	3,149
Amortization of deferred contributions	(262)	(472)
Employer pension contributions	(1,907)	(1,771)
Pension expense	2,100	1,919
Loss on disposal of capital assets	66	-
Changes in non-cash working capital balances:		
Accounts receivable	1,644	(5,452)
Prepaid expenses	(316)	17
Accounts payable and accrued liabilities	8,192	(1,208)
Accrued interest on investments	615	(890)
Long-term client accounts receivable	(656)	10,230
	\$ (5,967)	\$ 28,838
INVESTING ACTIVITIES		
Purchase of capital assets	\$ (5,807)	\$ (872)
Purchase of investments	-	(35,365)
Redemption of investments	10,000	-
	\$ 4,193	\$ (36,237)
Net increase (decrease) in cash and cash equivalents during the year	(1,774)	(7,399)
Cash and cash equivalents, beginning of year	8,918	16,317
Cash and cash equivalents, end of year	\$ 7,144	\$ 8,918

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario Summary of Significant Accounting Policies

March 31, 2009

Nature of Operations

On December 18, 1998, the Ontario Legislative Assembly enacted the *Legal Aid Services Act, 1998* whereby Legal Aid Ontario (the "Corporation") was incorporated without share capital under the laws of Ontario. The Corporation began operations on April 1, 1999 and is tax exempt under the Income Tax Act (Canada).

The *Legal Aid Services Act, 1998* establishes the following mandate for the Corporation:

- To promote access to justice throughout Ontario for low-income individuals by providing high quality legal aid services
- To encourage and facilitate flexibility and innovation in the provision of legal aid services
- To recognize the diverse legal needs of low-income individuals and disadvantaged communities
- To operate within a framework of accountability for the expenditure of public funds

The affairs of the Corporation are governed and managed by a Board of eleven Directors appointed by the Lieutenant Governor in Council. While the Corporation operates independently from the Province of Ontario and the Law Society of Upper Canada, it is accountable for the expenditure of public funds and for the provision of legal aid services in a manner that both meets the needs of low-income individuals and is cost-effective and efficient.

Basis of Accounting

The Corporation follows the deferral method of accounting for contributions.

Accumulated surplus (deficit) represents the excess (deficiency) of revenue over expenses related to the Corporation's program delivery and administrative activities.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Revenue Recognition

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue if the amount to be received can be reasonably estimated and collection is reasonably assured. Due to uncertainty surrounding the amounts to be billed, client contributions are recognized as revenue when the Corporation accrues a lawyer's invoice on behalf of a client. Judgments, costs and settlements are recognized as revenue when awarded.

Expense Recognition

Expenses are recognized on an accrual basis. Certificate program costs include amounts billed to the Corporation by lawyers and an estimate of amounts for work performed by lawyers but not yet billed to the Corporation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks plus highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturities of three months or less.

Legal Aid Ontario Summary of Significant Accounting Policies (Continued)

March 31, 2009

Financial Instruments

The Corporation has designated all of its investments as Available for Sale and as such, are recorded at fair value. Transaction costs related to the purchase of investments are capitalized and costs related to the sale of investments are expensed in the year incurred. Changes in fair value are treated as an increase or decrease in the statement of changes in accumulated surplus (deficit).

Fair value for investments are valued at year-end quoted market prices. The Corporation has designated client accounts receivable as loans and receivables and carries them at amortized cost using the effective interest rate method.

The Corporation has designated its cash and cash equivalents as Held-For-Trading and carries them at fair value. Accounts payable and accrued liabilities are designated as Other liabilities and are also carried at fair value. The fair value of cash and cash equivalents, accounts payable and accrued liabilities approximate their face value due to the short-term nature of these accounts.

The Corporation has adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3861, Financial Instruments - Disclosure and Presentation, in accordance with the Accounting Standards Boards' decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained with Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation.

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful life of the asset as follows:

Furniture and office equipment	–5 years
Computer hardware and software	–3 years
Custom-designed software	–3 years
Enterprise-wide software	–7 years
Leasehold improvements	–over the term of lease

Deferred Capital Contributions

Deferred capital contributions, related to the funding received from the Province of Ontario for the acquisition of capital assets, represents the unamortized portion of contributions used for the acquisition of capital assets. Amortization of the deferred capital contribution is provided on the same basis as the related asset.

Pensions

Substantially all of the Corporation's employees are enrolled in a defined contribution plan. The cost of pension benefits for defined contribution plans are charged to operations as contributions become due. The Corporation also has a small number of employees enrolled in a defined benefit plan. The cost of pension benefits earned by the employees covered by the defined benefit plan is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, terminations and retirement ages of plan members. Adjustments for plan amendments, changes in assumptions and actuarial gains and losses are recorded in the statement of operations over the expected average remaining service life of the employee group which is approximately 7 years.

Legal Aid Ontario Summary of Significant Accounting Policies (Continued)

March 31, 2009

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Significant estimates in the financial statements include the allowance for accounts receivable, accruals related to legal work performed but not yet billed and accrued pension benefits.

Future Accounting Changes

The CICA Handbook Section 4400, Financial Statement Presentation by Not-For-Profit Organizations:

Recent amendments to Section 4400, Financial Statement Presentation by Not-for-Profit Organizations, will modify the requirement with respect to various elements of financial statement presentation. These amendments include:

- (i) reporting certain revenue at its gross amount in the statement of operations;
- (ii) the elimination of the requirement to treat net assets invested in property and equipment as a separate component of net assets; and
- (iii) when a not-for-profit organization classifies its expenses by function and allocates some of its general support costs to another function, disclosing the policy adopted for expenses and amounts allocated from general support costs to other functions.

The new standard applies to financial statements relating to fiscal years beginning on or after January 1, 2009. The Corporation is evaluating the impact of the amendments on its financial statements.

March 31, 2009

1. Funding by the Province of Ontario

Section 71 of the *Legal Aid Services Act, 1998* requires the Corporation and the Attorney General of Ontario to enter into a Memorandum of Understanding (“MOU”) every five years. The purpose of the MOU is to clarify the operational, administrative, financial, and other relationships between the Attorney General and the Corporation.

The Memorandum of Understanding which was signed on December 22, 2000 expired April 1, 2004. A new Memorandum of Understanding was signed on December 10, 2008. The agreement is effective for five years and expires on December 10, 2013.

(a) Contributions received from the Province of Ontario were allocated as follows:

(dollars in thousands)	2009	2008
Contributions	\$ 285,549	\$ 283,416
Amortization of deferred contributions (note 7)	262	472
	<u>\$ 285,811</u>	<u>\$ 283,888</u>

(b) Included in contributions from the Province of Ontario for the year ended March 31, 2009 is an amount of \$ 50.1 million (2008—\$50.4 million) representing an allocation of funds from a lump sum transfer by the Federal Government to the Province in connection with criminal law, the Youth Criminal Justice Act, and other expenditures for unique pressures through a cost-sharing arrangement.

(c) Subsection 66(3) of the *Legal Aid Services Act, 1998* allows the Corporation to designate any surplus or deficit in a fiscal year to either or both of the two subsequent fiscal years with the approval of the Attorney General, unless under Subsection 69(2) it is ordered by the Minister of Finance to pay its surplus into the Consolidated Revenue Fund.

Legal Aid Ontario

Notes to Financial Statements

(Continued)

March 31, 2009

2. Cash and Cash Equivalents

The Corporation has an available line of credit in the amount of \$5 million which remained unused as of March 31, 2009. The credit facility bears interest at prime rate and is unsecured.

3. Accounts Receivable

(dollars in thousands)	2009	2008
Client accounts receivable	\$ 80,233	\$ 73,152
Less: Allowance for doubtful accounts	(46,293)	(42,778)
Client accounts receivable (net)	33,940	30,374
Less: Long-term portion of client accounts receivable	(20,024)	(19,368)
Client accounts receivable - current	13,916	11,006
Due from The Law Foundation of Ontario	688	3,798
Other receivables	6,959	8,403
Current accounts receivable	\$ 21,563	\$ 23,207

The Corporation has a client contribution program for legal aid applicants who do not meet the Corporation's financial eligibility requirements for a non-contributory certificate. These applicants receive the assistance they need by entering into a contribution agreement, by which they undertake to repay the Corporation over time for the services provided to them. Contribution agreements may include monthly payments and/or liens on property.

Legal Aid Ontario

Notes to Financial Statements

(Continued)

March 31, 2009

4. Investments

The Corporation has designated all of its investments as Available for Sale and records them at fair value.

(dollars in thousands)	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Guaranteed Investment certificates	\$ 50,000	\$ 50,000	\$ 60,000	\$ 60,000
Accrued interest	637	637	1,252	1,252
Less: Contingency reserve –Short-term (Note 9)	\$ 50,637	\$ 50,637	\$ 61,252	\$ 61,252
	\$ (20,000)	\$ (20,000)	\$ (20,000)	\$ (20,000)
Total	\$ 30,637	\$ 30,637	\$ 41,252	\$ 41,252

The Corporation has developed an investment policy in accordance with the statutory requirements outlined in Sections 7(1), 7(2), 7(3) and 7(4) of Ontario Regulation 107/99 made under the *Legal Aid Services Act, 1998*. The Corporation's short-term and long-term investment policy is to invest in highly liquid investments in Canadian federal government securities, Canadian provincial government securities or other guaranteed investment certificates issued or guaranteed by Canadian financial institutions with a rating of A or above. The investments held by the Corporation as at March 31, 2009 are in compliance with the statutory requirements. The Corporation earned total investment income of \$1.9 million in 2009 (2008–\$1.7 million).

The Corporation's investment portfolio is exposed to various risks, which are mitigated by the type of investments and therefore risk is low. The associated risks with the investments are as follows:

(a) Interest rate risk:

The value of fixed income securities will generally rise if interest rates fall and decrease if interest rates rise. The fixed income investments consist of \$50.0 million in 2009 (2008–\$60.0 million) in guaranteed investment certificates, bearing interest rates ranging from 0.6% to 3.0% (2008 from 3.0 to 4.4%) and maturing from September 3, 2009 to March 31, 2010 (2008–August 21, 2008 to March 30, 2009).

(b) Liquidity risk:

Liquidity risk is the ease with which an organization can readily convert its investments into cash. Guaranteed investment securities represent instruments in highly liquid investments that are readily converted into known amounts of cash.

(c) Market risk:

Market risk arises as a result of trading fixed income securities. Fluctuation in the market exposes the Corporation to a risk of loss. Given the composition of the investment portfolio and the statutory requirements regarding investment decisions, market risk is low.

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2009

5. Capital Assets (dollars in thousands)	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and office equipment	\$ 2,180	\$ 1,555	\$ 3,227	\$ 3,079
Computer hardware and software	19,727	18,071	18,135	7,259
Custom-designed software	46	20	46	5
Enterprise-wide software	15,628	10,441	15,628	8,209
Leasehold improvements	7,376	3,950	5,237	4,831
	\$ 44,957	\$ 34,037	\$ 42,273	\$ 33,383
Net book value		\$ 10,920		\$ 8,890

6. Accounts Payable and Accrued Liabilities (dollars in thousands)	2009	2008
Legal accounts—billings received but not paid	\$ 23,243	\$ 19,547
—work performed but not yet billed	55,688	54,096
Rent inducements	1,857	12
Trade and other payables	4,525	3,622
Vacation pay	709	553
	\$ 86,022	\$ 77,830

At year end, management estimates the liability for work performed by private lawyers that has not yet been billed to the Corporation to be approximately \$55.7 million (2008—\$54.1 million).

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2009

7. Deferred Capital Contributions

Changes in capital contributions relating to Province of Ontario funded projects are as follows:

(dollars in thousands)	2009	2008
Balance, beginning of year	\$ 747	\$ 1,219
Amortization of deferred contributions (Note 1(a))	<u>(262)</u>	<u>(472)</u>
Balance, end of year	<u>\$ 485</u>	<u>\$ 747</u>

8. Changes in Net Assets Invested in Capital Assets

(dollars in thousands)	2009	2008
Balance, beginning of year	\$ 8,143	\$ 9,948
Amortization	(3,711)	(3,149)
Amortization of deferred contributions	262	472
Purchase of capital assets	5,807	872
Disposal of capital assets	<u>(66)</u>	<u>-</u>
Balance, end of year	<u>\$ 10,435</u>	<u>\$ 8,143</u>
Represented by		
Capital assets (Note 5)	\$ 10,920	\$ 8,890
Deferred capital contributions (Note 7)	<u>(485)</u>	<u>(747)</u>
	<u>\$ 10,435</u>	<u>\$ 8,143</u>

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2009

9. Contingency Reserve

Section 66(4) of the *Legal Aid Services Act, 1998*, requires the Corporation to maintain a contingency reserve fund as prescribed. Section 6 of Ontario Regulation 107/99, made under the *Legal Aid Services Act, 1998*, requires the Corporation to pay into the account, which was to be established for the purpose of holding the reserve fund, the capital amount of \$20 million. The Regulation also requires the Corporation to obtain advance approval from the Attorney General for any withdrawal beyond \$5 million of this capital amount and for the Corporation to provide an explanation of why the withdrawal is needed, a schedule for repayment, and a statement of the Corporation's plans for preventing a similar need from arising in future.

(dollars in thousands)	2009	2008
Balance, beginning of year	\$ 20,000	\$ 2,635
Transfer to contingency reserve from accumulated surplus	-	17,365
Balance, end of year	<u>\$ 20,000</u>	<u>\$ 20,000</u>
 Represented by		
(dollars in thousands)	2009	2008
Investments—short-term (Note 4)	<u>\$ 20,000</u>	<u>\$ 20,000</u>
	<u>\$ 20,000</u>	<u>\$ 20,000</u>

Legal Aid Ontario Notes to Financial Statements (Continued)

March 31, 2009

10. Clinic Law Services

The Corporation provides funding to community clinics enabling them to provide legal aid services to the community they serve on a basis other than fee for service. The community clinics are organizations structured as corporations without share capital and are governed and managed by a board of directors. Community Clinics are independent from, but accountable to, the Corporation under Sections 33 to 39 of the *Legal Aid Services Act, 1998*. Each community clinic is independently audited and is required to provide audited financial statements to the Corporation for the funding period.

The total grant to community clinics consists of:

(dollars in thousands)	2009	2008
Payments to and on behalf of clinics	\$ 60,646	\$ 58,865
Administrative costs	1,881	1,837
	\$ 62,527	\$ 60,702

11. Commitments and Contingencies

(a) The Corporation issues certificates to individuals seeking legal aid assistance. Each certificate issued authorizes legal services to be performed within the tariff guidelines. At March 31, 2009 management estimates that a potential \$ 47.0 million (2008 – \$47.0 million) could still be incurred on certificates issued on or before March 31, 2009 over and above the billings received to date and management's estimate of work performed but not yet billed.

(b) The Corporation leases various office premises and equipment throughout the Province. The base rent and estimated operating costs based on prior period information under these leases for the next five years and thereafter are approximately as follows:

(dollars in thousands)	Base Rent	Operating Costs	Total
2010	\$ 2,915	\$ 2,847	\$ 5,762
2011	2,596	2,646	5,242
2012	1,837	2,135	3,972
2013	1,528	1,838	3,366
2014	1,400	1,731	3,131
Thereafter	5,346	7,131	12,477
	\$ 15,622	\$ 18,328	\$ 33,950

Legal Aid Ontario Notes to Financial Statements (Continued)

March 31, 2009

11. Commitments and Contingencies (continued)

(c) The Corporation is the defendant in a number of lawsuits arising in the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not likely to be significant and are not determinable at this time. Losses, if any, will be accounted for in the period of settlement.

Some of the above lawsuits are covered by insurance after the application of a deductible of up to \$0.045 million, depending on when the event of the claim occurred and the nature of the claim.

12. Pensions

The Corporation has a pension plan to provide retirement benefits for its employees. The plan has effectively two plans. A defined contribution with a defined benefit component and supplementary (executive) plan.

Defined Contribution Component

The defined contribution component of the plan covers 622 (2008–594) employees. The Corporation makes pension contributions to the defined contribution component of the plan which is limited to making regular payments to match the amount contributed by the employees for current service. The Corporation's pension expense for the year relating to this component of the plan was \$1.862 million (2008–\$1.722 million).

Defined Benefit Component

The defined benefit component of the plan covers 9 (2008–10) participants. Under this benefit plan, benefits at retirement are related to years of service and remuneration during the years of employment. It is subject to actuarial valuations for funding purposes at intervals of not more than three years. The next actuarial valuation will be performed in fiscal 2011 on the value at January of 2011. The Corporation makes pension contributions to this component of the plan in amounts recommended by the actuary.

For the year ended March 31, 2009, an actuarial valuation for accounting purposes was performed using the following assumptions:

Discount rate	5.5 %
Salary increases	4.0%
Expected rate of return on assets	6.0%

Legal Aid Ontario

Notes to Financial Statements

(Continued)

March 31, 2009

12. Pensions (continued)

The actuarial valuation for accounting purposes for the year ended March 31, 2009 is as follows:

(dollars in thousands)	2009	2008
Accrued benefit obligation	\$ 2,633	\$ 3,183
Fair value of plan assets	2,472	2,940
Actuarial surplus (deficit)	(161)	(243)
Pension income	90	39
Pension accrued benefit asset	177	88
Pension contributions		
Employees	24	35
Corporation	131	72
Pension paid benefits	140	48

Supplementary Benefit Plan

The Board of the Corporation has also approved the establishment of a supplementary pension benefit plan for designated executive members. Under the supplementary pension benefit plan, benefits at retirement are related to years of service and remuneration during the years of employment. The Plan is unfunded and the benefits will be paid by the Corporation as they become due. The accounting valuation for the unfunded retirement plan has been performed as at March 31, 2009.

For the year ended March 31, 2009, an actuarial valuation for accounting purposes was performed using the following assumptions:

Discount rate	6.0 %
Inflation	3.0%

The actuarial valuation for accounting purposes for the year ended March 31, 2009 indicated the Corporation's pension expense on this benefit for the year was \$0.283 million (2008—\$0.187 million); the pension accrued benefit obligation as at March 31, 2009 was \$0.679 million (2008—\$0.634 million); and the accrued benefit liability as at March 31, 2009 was \$1.434 million (2008—\$1.152 million). During the year, the employee and the Corporation made no payments to the plan (2008—\$ nil).

13. Comparative Figures

Certain comparative figures has been reclassified in order to conform with current year presentation.

Management Discussion and Analysis

March 31, 2009

This management discussion and analysis report is intended to assist readers in understanding the operating results and financial position of Legal Aid Ontario as well as its strategic direction regarding the provision of services in the future.

This report should be read in conjunction with the audited financial statements for the Corporation for the year ended March 31, 2009, prepared in accordance with Canadian generally accepted accounting principles, and the accompanying notes which form a part of those statements.

Overview

Legal Aid Ontario (LAO) is the public agency responsible for ensuring equitable access to justice for economically disadvantaged individuals throughout Ontario. LAO, established by statute in 1999, is an independent but publicly funded and accountable non-profit corporation administering the provincial legal aid program. Services are delivered by private lawyers acting on a "fee for service" basis, by community legal clinics funded by LAO, and through lawyers employed directly by LAO.

LAO currently operates 51 area offices located in 48 communities throughout Ontario with a Provincial office located in Toronto. These offices receive and process applications and issue legal aid certificates to financially eligible individuals. Legal aid certificates allow clients to receive legal services from either a private lawyer or, in some cases, a lawyer employed by LAO.

Duty Counsel services for most courtrooms in the province are provided by Legal Aid Ontario using a combination of private lawyers and lawyers who are employees of LAO.

In addition, LAO provides funding to approximately 80 community legal clinics and six Student Legal Aid Services Societies (SLASS), which are operated by each of the Ontario universities who offer a law program.

In June 2007, LAO adopted a new management strategy that emphasized innovation, measurement, prioritization, accountability and co-ordination with an objective of achieving excellence in management.

Financial Highlights

Legal Aid Ontario recorded an excess of expenses over revenues for the year ended March 31, 2009 amounting to \$19.2 million, \$5.1 million less than the approved 2009-10 budget deficit of \$24.3 million.

Total revenues declined from the previous fiscal year by \$25.7 million and total expenses increased \$23.3 million as shown in the following chart:

(dollars in thousands)	Change			
	2009	2008	\$	%
Revenues	\$ 336,953	\$ 362,650	\$ (25,697)	(7.1)%
Expense	\$ 356,107	\$ 332,828	\$ 23,279	7.0%

Management Discussion and Analysis (Continued)

March 31, 2009

Financial Highlights (continued)

This change in year-to-year operating results was anticipated at the time the budget was approved for the year. The changes were attributable to:

- An increase of \$2.0 million in revenue from the Province of Ontario as part of a three year commitment to LAO to provide an additional \$51.0 million in funding;
- A reduction in Law Foundation revenues of approximately \$30.0 million due to the effects of the global economic downturn;
- An increase of approximately \$2.6 million in other revenue sources, particularly client contributions;
- A \$15.2 million increase in certificate program expenditures distributed among the following types of matters:

Criminal	\$7.1 million	7.5%
Family	\$4.8 million	10.5%
Immigration and Refugee	\$2.9 million	19.5%

Approximately \$7.5 million, or 50% of these increases, were attributable to tariff increases.

- An increase of \$2.8 million (8.1%) for Duty Counsel services, including \$1.0 million related to tariff increases;
- Additional funding amounting to approximately \$1.8 million (3.4%) provided to Community Legal Clinics;
- An increase of \$1.9 million (5.0%) in administrative costs.

Fiscal 2009 Analysis

REVENUES

Revenues declined to \$336.9 million in 2008-09 from \$362.5 million, or \$25.7 million, the previous year. The major factors contributing to this change were as follows:

(a) Province of Ontario

The provincial government demonstrated its commitment to LAO by providing funding in the amount of \$51 million over three years, beginning in fiscal 2007-08. The additional funding in 2008-09 amounted to \$17 million, a \$2 million increase over the funding

of \$15 million provided in the first year. At the time the funding was announced, the Board approved specific plans to use these funds over the three year period and expenditures related to these plans are reflected in the current year operating results.

(b) Law Foundation of Ontario

The Law Foundation of Ontario administers the interest earned on lawyers' trust fund balances and Legal Aid Ontario receives 75% of this net income. These revenues are highly dependent on two factors; the Bank of Canada target overnight interest rate and real estate activity levels.

A model was developed in 2007-08 which assists in predicting revenues from this source and reductions in comparison to previous years had been anticipated due to the downturn in economic conditions. Overall, Law Foundation revenues for 2008-09 declined by approximately \$30 million from 2007-08 which was \$3.2 less than the amount budgeted in 2008-09. This was the direct result of numerous rate reductions the Bank of Canada made in response to the severity of economic conditions globally.

(c) Client Contributions

LAO has a repayment arrangement for individuals who do not meet the Corporation's financial eligibility guidelines for non-contributory certificate services. These applicants receive the legal assistance they need and enter into an agreement in which they undertake to repay the Corporation the cost of the services provided on their behalf by solicitors who are paid by LAO. These agreements may include monthly payment arrangements and/or liens on property.

Historically, a proportion of all clients receiving certificates will enter into a repayment or contribution agreement. This source of revenue is positively correlated to certificate increases. That is, as the cost of the certificate program increases, client contribution revenues also generally increase by approximately 11%.

In 2008-09 certificate costs increased by \$15.2 million compared to 2007-08 which generated an additional \$2.5 million (16.5%) in revenue from client contributions.

Management Discussion and Analysis (Continued)

March 31, 2009

Fiscal 2009 Analysis (continued)

EXPENSES

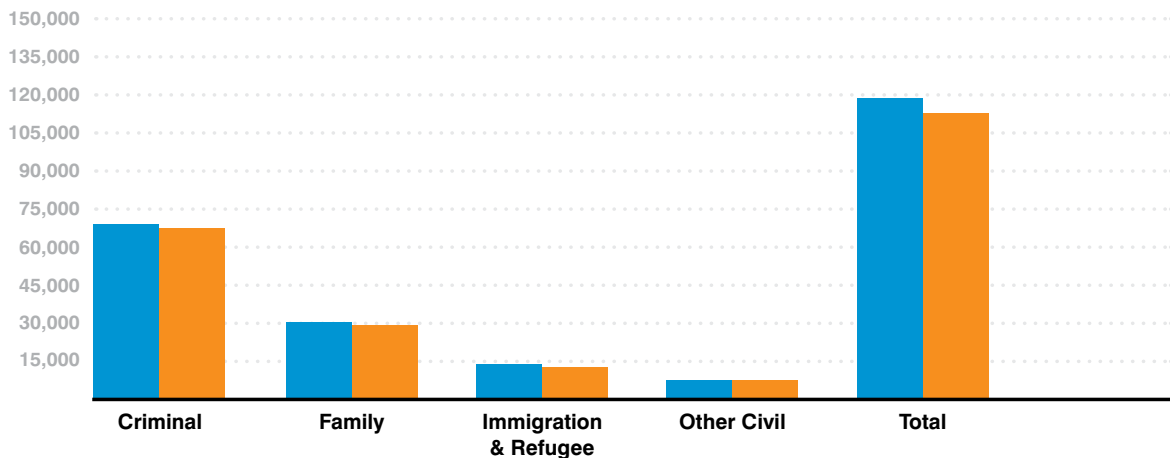
Total expenses increased to \$356.1 million for fiscal 2008-09, an increase of \$23.2 million compared to 2007-08. The majority of the total increase, approximately \$21.6 million, was directly related to client service expenditures.

Certificate Program

Certificates Issued

Certificates issued in 2008-09 totalled 117,169 compared to a target for the year of 111,825, a difference of 5,344 certificates or 4.8%. The following is the number of certificates issued by category during the year compared to target:

Certificates Issued vs. Targets by Major Aid



Certificates issued

Target

Certificates Issued vs. Targets by Major Aid

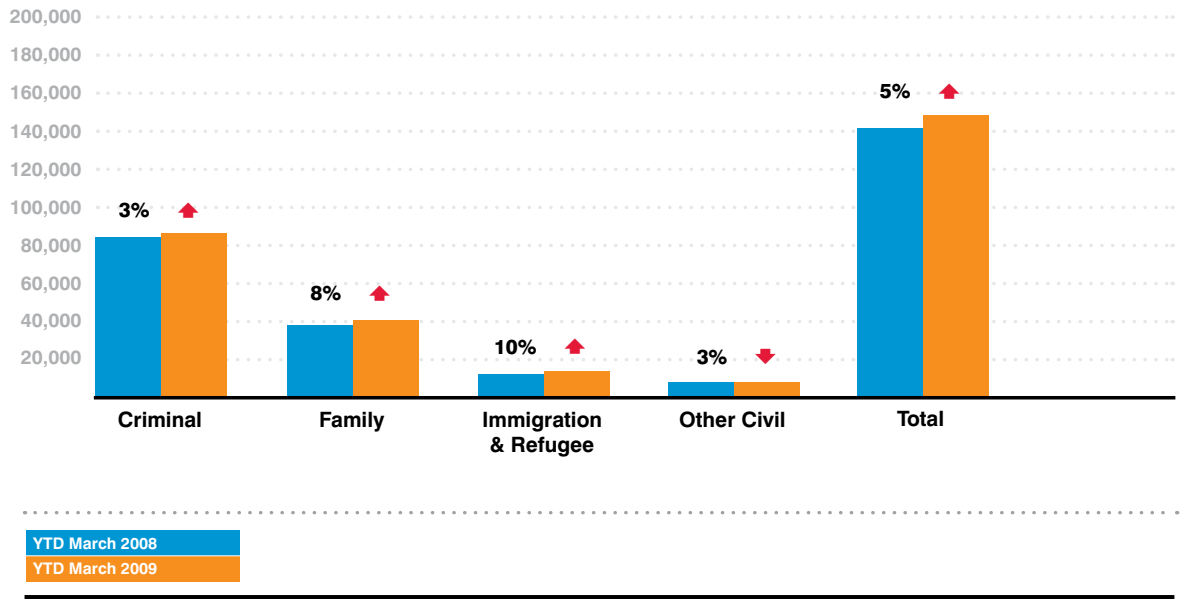
	Criminal	Family	Immigration & Refugee	Other Civil	Total
Actual	68,453	30,107	12,706	5,903	117,169
Target	67,258	27,700	11,060	5,807	111,825
Change	(1,195)	(2,407)	(1,646)	(96)	5,344
% Change	1.8%	8.7%	14.9%	1.7%	4.87%

March 31, 2009

Fiscal 2009 Analysis (continued)

Total certificates issued in relation to applications received increased by 4.8% in 2008-09 compared to 2007-08. Applications increased for all major aid categories other than Civil, with the highest percentage increases being recorded in Family and Immigration/Refugee matters. The percentage of applications that qualify for a certificate has increased to 80% from 77% between 2008-09 and 2007-08. This can be substantially attributed to the increased number of Family certificates LAO committed to issue in response to the increased funding provided by the Province in 2007-08. This also contributed to the increased cost of family certificates for the year.

Total New Applications For Certificates by Major Aid



Management Discussion and Analysis (Continued)

March 31, 2009

Fiscal 2009 Analysis (continued)

Certificate Expenditures

Total certificate expenditures in 2008-09 amounted to \$177.8 million, an increase of \$15.2 million or 9.4% compared to 2007-08 with increases occurring in all major aid categories. Approximately \$7.5 million of the total increase for the year was due to the 5% tariff increase included as part of the additional government funding commitment made in 2007-08.

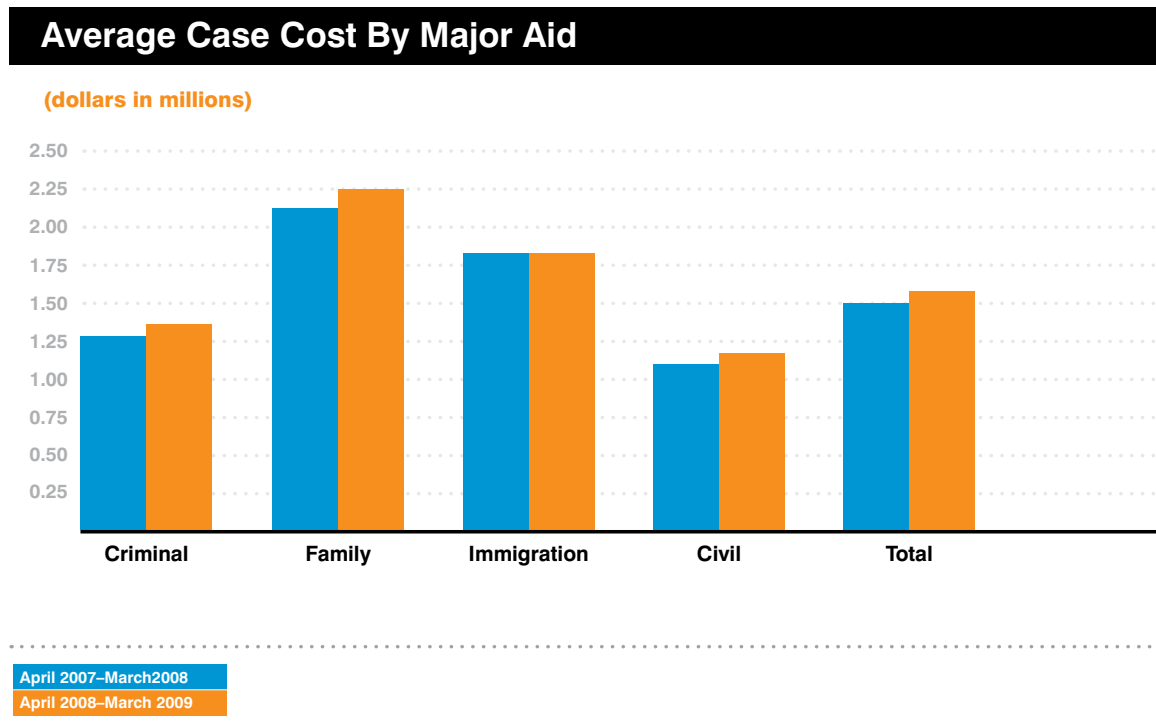
Changes in year over year expenditures for the Certificate Program were as follows:

(dollars in thousands)	Change			
	2009	2008	\$	%
Criminal – Big Cases	\$ 22,823	\$ 20,808	\$ 2,015	9.7%
Criminal – Other	\$ 80,078	\$ 74,950	\$ 5,128	6.8%
Family	\$ 50,755	\$ 45,927	\$ 4,828	10.5%
Immigration and Refugee	\$ 17,701	\$ 14,801	\$ 2,900	19.6%
Other Civil	\$ 6,450	\$ 6,114	\$ 336	5.5%
Total Certificate Expenditures	\$ 177,807	\$ 162,600	\$ 23,279	9.4%

March 31, 2009

Fiscal 2009 Analysis (continued)

The following chart depicts the average certificate case cost by major aid on a twelve month rolling average. Between 2008-09 and 2007-08, the overall average case cost increased to \$1,575 from \$1,491.



Average case cost increased in the range of 4% to 6% in the majority of aid categories and generally this can be attributed to the tariff increase. The exception is in Immigration/Refuges where average cost has remained relatively stable. This is likely the result of a backlog of refugee claims to be heard before the Refugee Protection Divisions of the Immigration and Refugee Board which has delayed the completion of cases. The remainder of the overall increase in certificate expenditures was related to the increased number of certificates issued.

The cost of Big Cases increased by approximately \$2.0 million or 9.7% compared to last year. Big Case costs are difficult to predict due to the nature of the cases involved, however, LAO will be conducting a study in the next year to improve its ability to forecast these types of expenditures.

In fiscal 2008-09 there were 68,453 certificates issued for criminal cases other than Big Cases. A 4.5% increase over the actual number of certificates issued in 2007-08 had been anticipated for the year but this target was exceeded by 1.8%. About half of the increase in certificates issued resulted from assault, narcotic and theft charges. The increased number of certificates issued in 2008-09 accounted for additional expenditures of \$3.2 million during the year.

A portion of the increase in the number of Family certificates issued and costs was expected since part of the funding commitment received from the province last year was increase services for women who have experienced family violence. There was a delay in issuing these certificates in the previous fiscal year and this contributed to the surplus recorded by LAO in 2007-08. Approximately \$2.4 million of the increased cost in Family expenditures in 2008-09 related to fulfilling the commitment to expand services in this area.

March 31, 2009

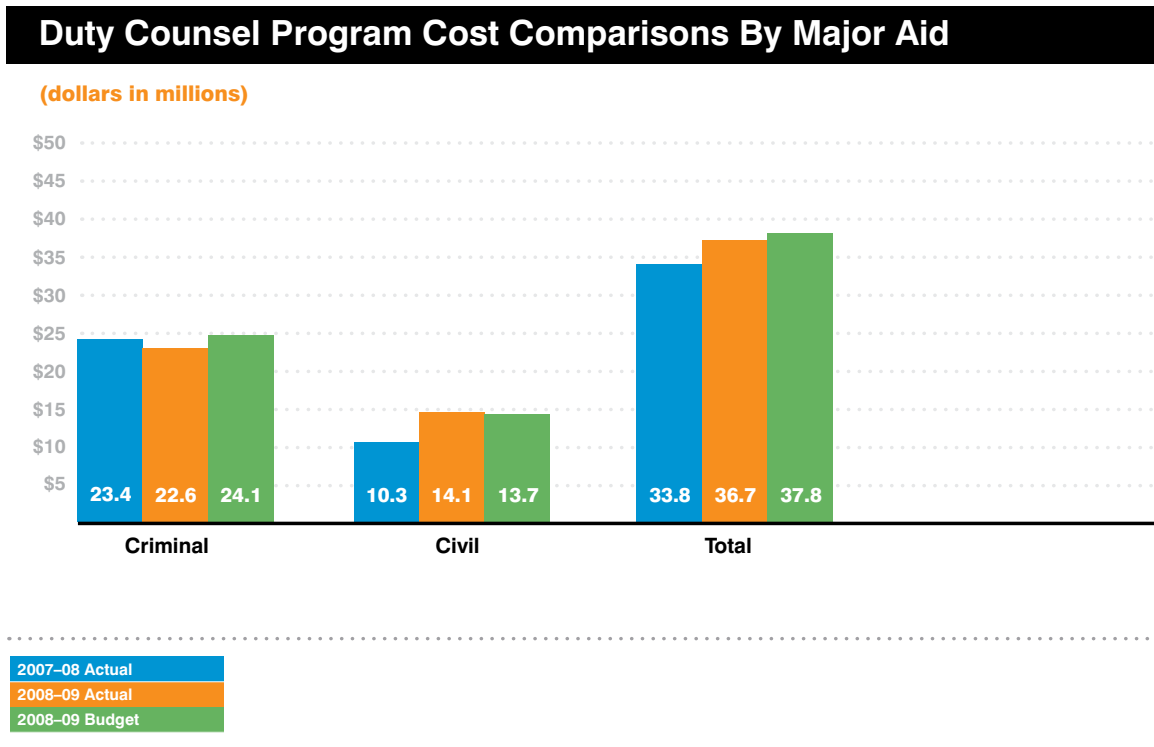
Fiscal 2009 Analysis (continued)

Immigration and refugee law expenditures increased by \$2.9 million, partially the result of the increased number of certificates issued in 2008-09. There had been a trend towards decreased costs in this area which was attributed to a backlog of cases to be heard by the Immigration and Refugee Board. This situation now appears to be resolving and normal expenditure patterns for certificates issued in previous years have resumed. This contributed to the 19.5% increase in the year over year change in expenditures for this major aid category.

Duty Counsel

Duty Counsel expenditures increased by \$2.9 million in 2008-09 compared to the previous year. Approximately \$1.7 million of the increase recorded during the year was due to higher compensation for lawyers. Salaries increased for those lawyers employed directly by LAO while the cost of lawyers who are paid on a per diem basis was affected by the tariff increase included as part of the additional funding provided by the Province.

The following is a comparison between 2008-09 budget and actual costs as well as 2007-08 actual expenditures:



Duty Counsel costs ended the year approximately \$1.1 million under budget. Although criminal costs were under budget for 2008-09, civil costs were slightly over budget. Expenditures for civil matters increased by

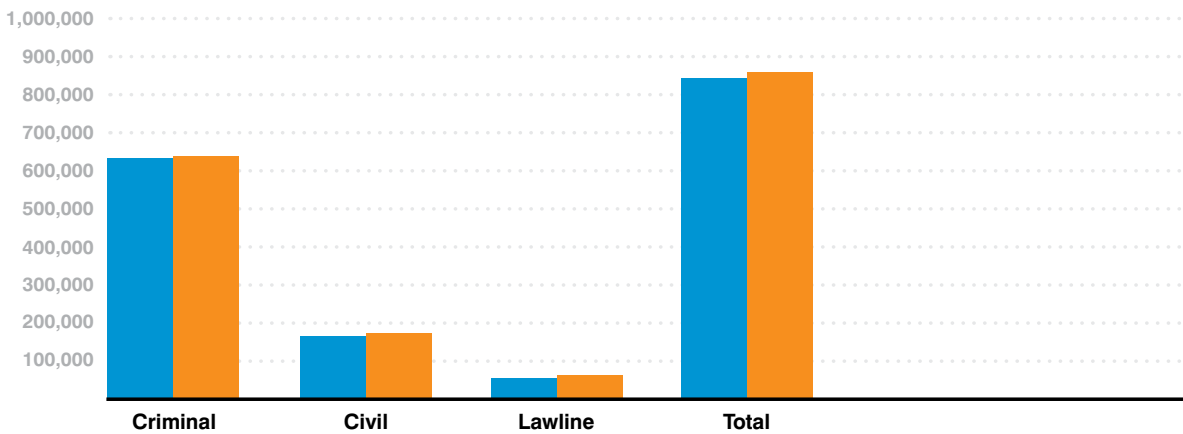
\$3.8 million in 2008-09 compared to 2007-08 while the cost of criminal assists declined by approximately \$900 thousand over the same period.

March 31, 2009

Fiscal 2009 Analysis (continued)

Duty Counsel assisted 854,156 persons in fiscal 2008-09 an increase of 2.5% compared to the 832,941 persons assisted in 2007-08

Duty Counsel Persons Assisted Comparisons by Major Aid



Fiscal Year 2007-08

Fiscal Year 2008-09

Criminal assists increased over last year by 2.0% while civil assists increased by 4.8% over the same period. Assists provided through Lawline increased by 2.6% compared to 2007-08. The proportion of criminal and civil to total persons assisted was approximately 79% and 21% respectively. This represents a 1% decrease in the proportion of criminal assists compared to fiscal 2007-08.

March 31, 2009

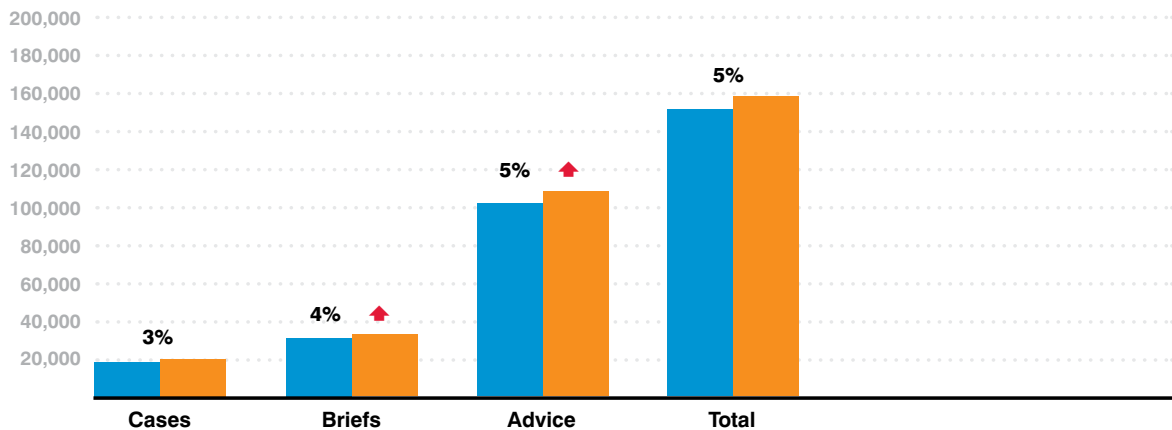
Fiscal 2009 Analysis (continued)

Clinics

Clinic funding in 2008-09 amounted to \$67.5 million, an increase of \$2.2 million or 3.4% compared to the last fiscal year. Total expenditures had been budgeted to increase to \$68.4 million but a combination of reduced spending on operations and a delay in starting the Clinic Information Management Project were the main factors contributing to this change. The underspending in this project was carried forward as part of the 2009-10 budget.

Services provided by clinics increased approximately 5% in 2008-09 compared to last year. The increase was generally attributable to advice services which represent the largest type of service provided by clinics.

Clinics - Services by Type



Fiscal 2007-2008

Fiscal 2008-2009

Management Discussion and Analysis (Continued)

March 31, 2009

Fiscal 2009 Analysis (continued) **Administrative and Other Costs**

Total administrative and other costs increased \$1.9 million in 2008-09 compared to 2007-08. These expenses include amortization and bad debt expense as well as general administrative costs.

General administrative expenses include salaries and benefits for all provincial office staff as well as centralized corporate costs such as consulting fees, office supplies, equipment leases, consulting fees and computer related expenses. The increase in administrative costs year-over-year was approximately \$3.2 million (12.6%) but, in total, actual expenditures were \$940 thousand under budget during fiscal 2008-09.

Salaries and wages increased by approximately \$2.1 million (5.7%) compared to 2007-08 but ended the year \$980 thousand under budget. The increase was primarily due to economic adjustments for union, management and legal staff as well as the addition of some staffing to address the need for improved organizational accountability.

Consulting fees increased by \$965 thousand in 2008-09. Major expenditures were made in the areas of:

- internal audit projects to assess risk and improve organizational accountability;
- human resource and strategic research to prepare LAO for changes in its service delivery models; and,
- the development of improved forecasting models to enhance financial reporting.

Amortization increased by approximately \$500 thousand over the previous year and this was the result of the leasehold improvements related to moving the Provincial office to a new location in 2008-09. Net savings of \$900 thousand annually will be generated from this relocation over the ten year term of the lease for the new facility.

Bad debt expense is associated with client contribution agreements that are considered uncollectible. Between 2008-09 and 2007-08, this cost decreased by \$1.8 million (20.7%). This change was affected by a change in accounting policy that was adopted last year to comply with the requirements of Section 3855 (recognition and measurement of financial instruments) of the Canadian Institute of Chartered Accountants Handbook. This resulted in a one-time charge of \$3.5 million to bad debt expense in 2007-08. Bad debt expense expressed as a percentage of total client contribution revenues increased to 33.5% in 2008-09 from 29.5% in 2007-08 after taking this adjustment into account. A study to review opportunities to improve collections is being undertaken with the expectation that bad debt expense would be reduced in the future.

Value Agenda

The Value Agenda is fundamental to LAO's strategic direction with a goal of meeting at least a 1% improvement in each of the next five years. Indicators to measure productivity have been developed and in use since fiscal 2006-07. Savings initiatives that were implemented last year are reflected under various categories in the financial statements and amounted to \$1.7 million in 2008-09. In addition, cumulative productivity improvements achieved are \$8.7 million including both Certificates and Duty Counsel programs.

Management Discussion and Analysis (Continued)

March 31, 2009

Balance Sheet

Assets have decreased by \$11 million (9.0%) from 2007-08. Liabilities have increased by \$8 million (10%) and the accumulated surplus has decreased by \$19.2 million or approximately 45%.

The decrease in assets can be mainly attributed to a \$10.6 million (26%) decrease reduction in investments, \$1.8 million (20%) decrease in cash and an increase in capital assets of \$2 million (23%).

This reduction in cash and investments was primarily used to fund the 2008-09 deficit of \$19.2 million. Cash was also impacted by the provincial office move which entailed the purchase of furniture and the costs of leasehold improvements. These were the main factors that contributed to the increase in the capital assets and also increased the Invested in Capital Assets appearing under Net Assets.

The increase in liabilities is mainly due to a \$3.7 million increase in solicitor accounts payable and an increase of \$1.8 million in deferred revenues. The solicitor increases can be attributed to an increase in the value of outstanding accounts but this can fluctuate depending on the timing of payment. The increase in deferred revenues was related to rent inducements resulting from the provincial office move. These will be recovered over the term of the lease.

The 2008-09 deficit was funded by a decrease in assets of \$11 million and an increase in liabilities of \$8 million. The combination of these factors resulted in an accumulated deficit of \$6.7 million. LAO had a working capital ratio of 0.9 at March 31, 2009 compared to 1.2 the previous year.

Risks

The following is a discussion of risk and uncertainties affecting LAO. This is not meant to be an exhaustive list of all the risks LAO is exposed to nor will the mitigation strategies noted eliminate all risks listed.

Economic

The economy has a dramatic effect on operating results for LAO. This is clearly apparent by the loss of \$30 million in Law Foundation revenues between 2007-08 and 2008-09; a direct result of the economic downturn. Recognizing that demands for services will

fluctuate, LAO was legislatively provided with the ability to accumulate a contingency reserve of up to \$20 million for this purpose. To the extent possible, these funds will be used as a bridging strategy to offset operating deficits until revenues return to more normal levels. In the future, LAO will be developing a long term strategy that treats Law Foundation revenues as a variable source of income and expenditure plans that are aligned to the timing of these earnings.

Historically, growth in the demand for legal aid services has an inverse relationship to the economic health of the province. With the increases in unemployment and poor economic performance in Ontario it is anticipated that this will increase pressures on the services provided by LAO, particularly in the areas of clinic and family law. The effect is not seen immediately as it takes time for the impact to be realized but eventually this creates cost pressures.

LAO continues to make changes to the way it delivers services so that they are as effective and efficient as possible in order to provide an optimum level of services and value for taxpayers. A number of efforts to support this objective are underway including a Simplified Online Application Process (SOAP) and a simplified Financial Eligibility project. These innovations will result in a more efficient administrative process while improving client interaction with LAO.

Government Priorities

Priorities set by the Provincial government have an impact on the services that LAO provides, and the way in which we provide them. LAO works with the Provincial government to meet shared objectives and to increase justice system efficiency. In response to the economic challenges facing Ontario, the Province's priorities appear to have changed to a much stronger emphasis on the economy. Given the deficit levels committed to by the Minister of Finance it would appear that expenditure levels in important areas like health and education will remain at traditional levels. The following Provincial initiatives will directly affect Legal Aid Ontario, including Justice on Target, the Poverty Reduction Strategy, the Aboriginal Strategy, and the increase in government oversight and agency accountability. LAO will ensure that its strategies complement the needs of the Province.

Management Discussion and Analysis (Continued)

March 31, 2009

Risks (continued)

Lawyer Recruitment and Retention

Legal aid is premised on a public-private partnership in which the private bar is relied upon to deliver the majority of legal aid services across the province.

Retaining legal counsel to provide services for clients will be a major challenge for LAO. Demographics suggest that the number of new lawyers willing to accept legal aid clients continues to decline and in certain practice areas like family law the number of lawyers accepting certificates has fallen.

LAO is still generally able to ensure that experienced, high-quality counsel accept legal aid certificates for most legal aid matters in most parts of the province. LAO's long-term trend analysis suggests, however, that the number of lawyers participating in legal aid has decreased significantly. This downward trend has coincided with an increase in the number of lawyers practicing law in Ontario. As law school tuition rates and student debt-loads increase, it is reasonable to expect that fewer students will be practicing family, criminal or refugee law or doing legal aid work. Instead they will be attracted to higher paying types of legal work.

In response to this, LAO has developed a Lawyers Workforce Strategy. This is a corporate talent management system focusing on the recruitment, development and retention of lawyers designed to reposition LAO as a desirable employer in an aggressive future labour market. By implementing these strategies LAO will be able to attract and retain quality legal staff and develop management expertise. This will be deployed on a pilot basis in the new fiscal year.

Outlook

The current economic downturn requires LAO to accelerate its efforts to provide improved and more responsive services through innovative and efficient operations. This will permit LAO to operate within the financial resources available to it. LAO is committed to dealing with staff and stakeholders in an open and candid manner during this process of change.

Future plans at LAO include the provision of multiple services through a variety of channels, using technology such as web-based tools, specifically tailored to clients' needs. In addition, LAO is actively working with the provincial government to make the court system more efficient.

LAO is building on solid foundation of sound management principles; part of the Value Agenda initiative launched two years ago. LAO remains committed to its goals of better client service, value for taxpayers and of achieving Justice on Target reforms.

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Ce document est disponible en français.

Legal Aid Ontario receives financial assistance from the Government of Ontario.

Legal Aid Ontario's annual report is also available in alternative formats.

For further information:

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